STATEMENT OF

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TO THE

HEALTH, EDUCATION, LABOR, AND PENSIONS COMMITTEEE

U.S. SENATE

MONTPELIER, VERMONT

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I am Dr. Keith Michl, a practicing physician specializing in internal medicine and gerontology in Dorset and a former Governor for the Vermont Chapter, American College of Physicians-American Society of Internal Medicine. I am here today to present my views on the challenges of the private health insurance market in Vermont and highlight the problems of both public and private insurance in our state as well as reaffirm the College's support of Senate Bill 2320, the Health Coverage, Access, Relief, & Equity Act (C.A.R.E. bill).

One of the greatest challenges that Vermont physicians and employers face is how to find a way to keep the market-based private insurance system available and affordable for our patients and employees. In the last several years, employers and individuals in Vermont have been forced to pay annual premium increases of 15 percent to over 30 percent. These insurance premium increases have been a real burden to businesses and have had a negative impact on the public sector as well. Employers increasingly are considering the option of limiting employee coverage or dropping it altogether. Town school districts search for ways to provide benefits to teachers without further jeopardizing educational programs.

Vermont has been fortunate to experience one of the lowest proportions of uninsured people in the country. In 1998, 9.9% were uninsured here compared to the national average rate of 16.3%. Much of this success has been accomplished by the expansion of the Medicaid system. Vermont's Dr. Dynasaur program covers children up to age 18 and up to 225 percent of Federal Poverty Level [FPL]. Over the last decade the program

has been expanded to cover more children. By January 2000, Dr. Dyansaur covered 53,000 of 147,000 Vermont children under age 18 or 36 percent of the state population. Under this generous program, a family of four, with an income as much as $50,100, can qualify for government-supplied child health care.

In 1995, the state further expanded the Medicaid program when the Vermont Health Assistance Plan (VHAP program) was signed into law. The plan was funded by a 120 percent increase in the cigarette tax and an increased tax on hospital revenues and nursing home beds. Additionally, the Agency of Human Services has raised the eligibility cap over the years to 185 percent of the FPL. The number of people covered by the Medicaid program as a whole increased by 16.4% from 1993 until 1998. As of 1998, about 16.0% of Vermont's population under 65 years old was enrolled in this program.

Over the 12 years of Medicaid expansion, there has been a large cost shift that requires "private pay" patients – those covered by employer-provided or individual insurance to absorb the uncompensated costs of Medicaid eligible patients. In 1998, 28% of Medicaid program hospital costs were shifted to private pay patients. For Vermont hospitals, this represents $16 million dollars in costs.

Physicians are not in a position to shift costs to their private pay patients. Most physicians are locked into payment schedules offered by the two major carriers in Vermont, Blue Shield of Vermont and MVP Health Plan. We, therefore, have little opportunity to make up the cost of Medicaid or Medicare underpayment. As a result, an increasing number of physician practices are declining to accept patients in the Medicaid program.

Vermont has a low-cost health care system—our expenditures are about three-quarters of the national average on a per capita basis. Utilization for health services is relatively low but is rapidly increasing. However, Medicare and Medicaid spend less per person in Vermont than in most other states. In fact, Vermont's Medicare reimbursement is among the lowest in the nation. Despite the low-cost of Vermont's health care system, these

characteristics of Vermont's Medicaid and Medicare programs have produced a serious problem for the commercial insurers and uninsured that are being asked to pick up the shortfall.

Vermont's insurers face the same challenges that contribute to a higher cost of insurance, including technological advances, treatment breakthroughs, etc. However, Vermont's insurers also experience the challenges of the state's insurance regulations, including mandated community rating for health insurance. The increasing cost of insuring Vermont's citizens as well as state insurance regulations may have contributed to the loss of many insurers in Vermont.

In 1991 there were approximately 16 companies selling health insurance in Vermont. This year there are only three companies [other than Blue Cross] offering non-group policies and three companies offering small group plans. These effects are felt in the public programs as well. Vermont originally wanted the VHAP program to develop into a managed care program. Initially, Blue Shield and Kaiser Permanente provided managed care services for roughly 25,000 people in the VHAP program. About a year ago, Kaiser Permanente announced that it was leaving the Northeast. Although it sold its businesses in New York, Connecticut and Massachusetts, it could not find a buyer for its 123,000 Vermont insured. Blue Cross soon after announced that it would stop offering managed care to VHAP enrollees by March 2000. As of October 1999, there was no commercial carrier willing to insure the managed care program for VHAP. Employers and individuals are noting a decrease in options available for them in the public and private marketplace.

Even as the enrollment in Dr. Dynasaur and the Vermont Health Access Plan over the last 9 years has more than doubled, rising from 33,000 in 1989 to 85,000 people in 1998, physicians have become concerned about the future of the health care system in Vermont. We still see patients who are uninsured or underinsured who do not receive proper medical care.

This should concern Vermont's physicians as well as the general public. The health consequences of a lack of insurance were recently well-documented by the College in its paper entitled ***"No Health Insurance? It's Enough to Make You Sick."*** The analysis confirms what physicians have observed in their practices and communities over many years. Patients without health insurance, compared to insured Americans, tend to live sicker lives and die earlier. The urgency of the problem grows daily despite the current unprecedented economic boom.

The expanded access to Medicaid programs has improved the care of many people, but the resultant cost shifting has put stress on the private insurance market. Although Vermont has a small uninsured population, those who are uninsured are finding access to commercial plans increasingly unaffordable. In my small town practice, I increasingly see patients who are self-employed and middle-class having great problems affording medical treatments and pharmaceuticals. These patients include those with established small businesses and recent College graduates who do not qualify for public programs but are not able to afford the high premium costs in the private insurance market.

Vermont's system isn't in crisis yet but it is feeling the pressure of premium increases, the lack of competition in the few remaining health insurance plans in Vermont, and the shift of costs from public to private payers. Access to health care and the quality of health care are relatively good compared to other states. Our health sector is feeling increasingly vulnerable to decreasing physician reimbursement in both the public and private sectors, but the cost shifting from the public to the private sector is especially damaging. . Inadequate public funding and the inability of the private sector to accept further cost-shifts have made our health system suffer from weak capitalization. Over the long run this could result in a decrease in access to health care.

We need to introduce reforms to expand coverage that do not rely solely on expanding public programs such as Medicaid. Reforms that allow for plurality in the marketplace should be tested. We need to allow for some competition and consumer choice of health plans to return to the insurance market in Vermont. Additional burdens on hospitals,

physicians and other health care providers to provide care at below market reimbursement cannot be sustained. We need to carefully consider the effect of mandated coverage for certain conditions on the ability of individuals and businesses to afford health care.

One market-based approach to expanding coverage is contained in the C.A.R.E. bill that you are sponsoring along with a number of your colleagues from both parties. I am fully supportive of the position of support for this bill taken by my professional organization, the American College of Physicians-American Society of Internal Medicine. I believe that tax credits targeted to lower-to-moderate income Americans will help to reduce the number of Vermont residents without insurance. If the tax credit is adequate to make coverage affordable to these people, it will reduce our reliance on having more people in the inadequately funded Medicaid program. If done carefully, it should help our increasingly vulnerable private insurance market.

Conclusion

Most importantly, all Americans should have access to affordable and accessible health insurance. Vermont's experience suggests that a primarily public strategy to achieve this goal is not sufficient. Although Vermont has experienced an increase in the number of its citizens enrolled in its Medicaid and Medicare programs, 9.9% of Vermont's citizens remain uninsured. Additionally, the insurance options available to Vermont's citizens are decreasing as many insurers have decided to leave the state. A combined public and private strategy is more likely to achieve affordable and accessible health insurance for all Americans. However, we need to ensure that incentives remain in place to prevent displacement of people from employer-funded health insurance programs.

Thank you. I would be happy to address any questions you may have.